GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3172
ANSWERED ON:07.12.2007
CASH RESERVE RATIO
Veerendra Kumar Shri M.P.

Will the Minister of FINANCE be pleased to state:

(a) whether the recent increase in the Cash Reserve Ratio (CRR) will adversely impact the health of rural cooperative banks which are already under strain due to income tax imposed on them;

(b) if so, the details thereof;

(c) whether the Government has considered their demand for exemption from income tax;

(d) if so, the details thereof;

(e) if not, whether the Government proposes some relief for them so that the rural cooperative banks may continue to help the farmers without eroding their financial health; and

(f) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a) and (b) : As announced by the Reserve Bank in the Mid-term Review of annual Policy Statement on Monetary Policy for the year 2007-08, it was decided to increase Cash Reserve Ratio (CRR) of scheduled State Co-operative Banks (SCBs) by 50 basis points to 7.50% of their demand and time liabilities with effect from the fortnight beginning November 10, 2007. The above increase affects only 16 scheduled SCBs. As almost all of the SCBs have high positive net worth, this increase in CRR is unlikely to have an adverse financial impact. Further, this increase in CRR does not apply to the District Central Cooperative Banks (DCCBs).

(c) and (d) : The demand for exemption of Cooperative Banks from income tax under Section 80P of the Income Tax Act was considered by the Government. However, the same has not been found to be acceptable.

The imposition of Income Tax is in consonance with the objective of the Government to expand the tax base by phasing out exemptions that are considered economically inefficient and inadequate. Income Tax is levied on profits and there is no rationale for exempting profit making Cooperative Banks from payment of Income Tax. There is no justification of providing a special dispensation to cooperative banks, which have grown into full-fledged commercial entities earning substantial profits from their banking activities.

(e) and (f) : The Government of India (GoI) has approved a revival package to strengthen Short Term Rural Cooperative Credit Structure (STCCS). The States willing to implement the package are required to sign a Memorandum of Understanding (MoU) with Central Government and National Bank for Agriculture and Rural Development (NABARD) for carrying out certain legal and institutional reforms.

Financial assistance for STCCS under the package is available for cleansing of Balance Sheet as on 31st March 2004 and increasing the capital to a specified minimum level subject to legal and institutional reforms. In order to ensure that STCCS continues on sound financial, managerial and governance norms, technical assistance is to be provided to upgrade institutional and human resources of STCCS, computerization and setting up proper internal control and accounting systems.